

REDACTED DIRECT TESTIMONY
OF
PHIL A. HARDAS
FINANCE DEPARTMENT
FINANCIAL ANALYSIS DIVISION
ILLINOIS COMMERCE COMMISSION

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APR 18 11 31 AM '00
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ILLINOIS COMMERCE COMMISSION
ON ITS OWN MOTION
-VS-
COMMONWEALTH EDISON COMPANY

DOCKET NOS. 00-0230/00-0244
(CONSOLIDATED)

PROPOSED TRANSFER OF ALL NUCLEAR GENERATING ASSETS

APRIL 2000

Q. Please state your name and business address.

A. My name is Phil A. Hardas. My business address is 527 East Capitol Avenue,
P.O. Box 19280, Springfield, Illinois, 62794-9280.

**Q. What is your current position with the Illinois Commerce Commission
"Commission"?**

A. I am presently employed as a Financial Analyst with the Finance Department of
the Financial Analysis Division.

Q. Please describe your qualifications and background.

A. In December of 1998, I received a Bachelor of Science degree in Finance from
Southern Illinois University in Carbondale, Illinois. I am currently pursuing a
Masters degree in Business Administration at the University of Illinois at
Springfield. I have been employed by the Illinois Commerce Commission since
May 1999.

Q. Please state the purpose of your testimony in this proceeding.

A. On March 16, 2000, Commonwealth Edison Company ("ComEd" or "Company")
filed notice with the Commission of its intent to transfer its nuclear generating
stations to an affiliate, Exelon Genco. This proceeding was initiated by the

Commission to determine whether the proposed transfer of the specified nuclear generating stations should be prohibited. One of the issues before the Commission under Section 16-111(g)(vi) of the Illinois Public Utilities Act ("Act") (220 ILCS 5/16-111(g)(vi)) is whether there is a strong likelihood that consummation of the proposed transaction will result in the Company being entitled to request an increase in its base rates during the mandatory transition period pursuant to Section 16-111(d) of the Act. Towards that end, my testimony presents my evaluation of the Company's projected earned rates of return on common equity ("ROEs"). I will address the likelihood that consummation of the proposed transaction will result in the Company being entitled to request an increase in base rates during the mandatory transition period pursuant to the Act.

Q. Please summarize your findings.

A. In ComEd Appendix M, the Company provided projected two-year average ROEs for each year from the date of the notice through December 31, 2004, both with and without the proposed transaction. The Company's projected ROEs assume 0% and 100% retail sales retention. The ROEs were adjusted for impaired asset amortization in 1999 and intangible asset amortization in 2001 - 2004. The Company subsequently adjusted Appendix M in its response to Staff Data Request PH-3 by including adjustments for impaired regulatory asset amortization in 2000 and 2001, and the impact of income taxes on regulatory asset amortization. After correcting for errors in its revised calculation, I've

determined that the Company's adjusted projected ROEs indicate that there is not a strong likelihood that consummation of the proposed transaction will result in the electric utility being entitled to request an increase in base rates during the mandatory transition period pursuant to Section 16-111(d).

Q. What are the Company's projected ROE's?

A. Based upon footnote 1 of the Company's response to Staff data request PH-3, under 0% retail sales retention, the two-year averages of projected ROEs are between 8.5% and 9.5%, giving effect to the proposed transfer, and between 9.5% and 10.5% were the proposed transfer not to occur.¹ Under 100% retail sales retention, the two-year averages of projected ROEs are between 9.5% and 10.5% giving effect to the proposed transfer, and between 10.5% and 11.5% were the proposed transfer not to occur. (See Schedule 3.1) The two-year average projected ROEs are higher if the proposed transfer were to occur than if the proposed transfer were not to occur.

Q. How were the Company's projected ROEs calculated?

A. The Company calculated its projected ROEs for the period December 31, 1999 through December 31, 2004 using amounts derived from projected financial statements with and without the proposed transfer. ROEs were calculated by

¹ Footnote 1 of the Company's response to Staff data request PH-3 correctly includes an adjustment for impaired regulatory asset amortization in 2000 and 2001. This adjustment was

dividing the 2-year average of Net Income Applicable to Common Stock by the average of the beginning and ending balances of Common Equity for the same two-year period. Amounts used in the Company's calculations were adjusted to remove the after-tax impact of accelerated depreciation and amortization expected to be recorded during each of the relevant years.

Q. Do you have any corrections to the Company's adjusted ROE calculations shown on Schedule 3.1?

A. Yes, I do. The Company's adjusted ROE calculations neglected to properly adjust for the tax effect of the impaired regulatory asset amortization. Specifically, the tax effect of impaired regulatory asset amortization was included in "Adjusted Net Income" (line d), but was not accounted for in "½ Current Year Adjustments" (line g). Correcting for that error results in the projected ROEs shown in Schedule 3.2. Under 0% retail sales retention, the two-year averages of projected ROEs are between 8.8% and 9.2%, giving effect to the proposed transfer, and between 8.2% and 8.6% were the proposed transfer not to occur. Under 100% retail sales retention, the two-year averages of projected ROEs are between 8.8% and 9.2% giving effect to the proposed transfer, and between 8.2% and 8.6% were the proposed transfer not to occur. The two-year average projected ROEs are higher if the proposed transfer were to occur than if the proposed transfer were not to occur.

not made to the ROEs in Appendix M and lines (I) and (j).

Q. Do you have any other concerns with the Company's ROE calculations shown on Schedule 3.1?

A. Yes, it is not clear whether Section 16-111 (d) of the Act requires adjustments for goodwill amortization to calculate the Company's projected ROEs. The Company's ROE calculations do not contain that adjustment. The Company prepared additional ROE calculations with goodwill amortization adjustments in response to Staff data request PH-9. Unfortunately, those ROE calculations also neglected to adjust for the tax effect of the impaired regulatory asset amortization. Correcting for that error results in projected ROEs shown on Schedule 3.3. In summary, with the goodwill amortization adjustments, under 0% retail sales retention, the two-year averages of projected ROEs are between 11.1% and 11.2%, giving effect to the proposed transfer, and between 11.1% and 11.2% were the proposed transfer not to occur. Under 100% retail sales retention, the two-year averages of projected ROEs are between 11.1% and 11.2% giving effect to the proposed transfer, and between 11.1% and 11.2% were the proposed transfer not to occur. Once again, the two-year average projected ROEs are higher if the proposed transfer were to occur than if the proposed transfer were not to occur.

Q. Based on your analysis, do the projected ROEs for the Company indicate a strong likelihood that consummation of the proposed transaction would result in the Company being entitled to request an increase in base rates?

- A. No, they do not. Under Section 16-111(d), if the Company's two-year average of earned ROE is below the two-year average of the monthly average yields of the 30-year U. S. Treasury bonds for the same two-year period, then the Company may request an increase in its base rates. Under Section 16-111(g), two-year average of projected ROEs are required to determine the likelihood that the Company would be entitled to request an increase in base rates. As shown on Schedules 3.2 & 3.3, the Company's two-year average of projected ROEs from December 31, 1999 through December 31, 2004 are higher than the spot yield for 30-year U.S. Treasury bonds on April 12, 2000 of 5.84% and the two-year average for 30-year U.S. Treasury bonds for the period ending December 31, 1999 of 5.72%¹.

Since the future yields of U.S. Treasury bonds are unknown, I examined the historical variability of those yields. Standard deviation measures the dispersion of data around a mean value. The standard deviation for the two-year average of monthly average yields of the 30-year U.S. Treasury bonds from January 1989 through December 1999 equals .90%. Under all transfer scenarios, the two-year averages of projected ROEs are at least two standard deviations above the current U.S. Treasury bond yield and the most recent two-year monthly average of the U.S. Treasury bond yields. This indicates that there is a very low probability that the two-year average of monthly average yields of the 30-year U.S. Treasury bonds would exceed the projected two-year average of

projected ROEs. These results indicate that there is not a strong likelihood of the Company qualifying to request an increase in base rates.

Q. What is your conclusion?

A. Based upon my evaluation, the consummation of the proposed transaction will not result in the strong likelihood of the Company being entitled to request an increase in its base rates during the mandatory transition period pursuant to Section 16-111(d) of the Act.

Q. Does this conclude your direct testimony?

A. Yes, it does.

¹ <http://www.bog.frb.fed.us/releases/h15/data/m/tcm30y.txt>

Staff Schedules

3.1, 3.2, & 3.3

are confidential.